

This record is a partial extract of the original cable. The full text of the original cable is not available.

271534Z Nov 04

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 002384

SIPDIS

STATE FOR AF/W  
STATE FOR EB/ESC/IEC/ENR/BLEVINE  
STATE FOR DS/IP/AF  
STAT FOR INR/AA  
STATE PASS DOE FOR DAS JBRODMAN AND CGAY  
STATE PASS TREASURY FOR ASEVERENS AND SRENENDER  
STATE PASS DOC PHUPER  
STATE PASS TRANSPORTATION FOR MARAD

E.O. 12958: DECL: 11/24/2009

TAGS: [EPET](#) [EINV](#) [NI](#)

SUBJECT: HALLIBURTON BAN LIKELY TO BE REVERSED; FIRM  
CRITIQUES BARITE IMPORT BAN AND JV UNDERFUNDING

REF: ABUJA 1663

Classified By: Classified By: Consul General Brian L. Browne for Reason  
s 1.4 (D & E)

Summary

1. (C) Halliburton has indicated the GON is likely to quietly lift the ban against the firm's activities in Nigeria. The move was facilitated by the October 5 return to Nigeria of radioactive sources stolen in 2002 but later recovered by Halliburton. Halliburton also expressed concerns regarding funding constraints for joint venture petroleum operations with the Nigerian National Petroleum Corporation (NNPC). The Halliburton Business Development Manager noted the NNPC often curtails oil service company operations mid-year, due to the GON's failure to meet budget allocations for NNPC. Halliburton also expressed alarm at the ban on the importation of barite, a mineral used in drilling mud. Instead, oil service companies are being directed to a Nigerian firm awarded an exclusive import license, which charges three times the world price for barite.

GON Likely to Lift Halliburton Ban

2. (C) Energy Off met Halliburton's Business Development (BD) Manager Jim Mills and Halliburton (outside) legal counsel Oghogo Akpata on 18 and 19 November. Both indicated the ban against Halliburton entering into new oil service contracts is likely to be lifted soon. They indicated President Obasanjo was likely to approve a carefully brokered agreement that would allow the company to enter new contracts. Halliburton is currently waiting for the President and Attorney General to meet to conclude the agreement. Halliburton legal counsel indicated the return of the radioactive sources to Nigeria on 5 October played a central role in the GON's apparent about face. (Note: The sources had been stolen from a Halliburton site in Nigeria, and shipped as scrap in Germany. Halliburton's decision to ship the sources to the U.S. for examination in the firm's laboratories raised the ire of the GON; President Obasanjo voiced intense displeasure that the sources were not returned immediately from Germany to Nigeria. End Note.)

Quiet Reversal of Ban Likely

3. (C) Given the GON's public pronouncements against Halliburton, the reversal in GON policy is likely to be downplayed. In recent weeks, Halliburton has attempted to get its side of the story out, to prepare public opinion for an eventual reversal of the ban. Halliburton states that the radioactive sources were imported with the knowledge and consent of GON for use in normal petroleum production activities, and that the firm immediately reported the disappearance to the GON. However, in a reversal from an earlier position, Halliburton legal counsel did admit that the radioactive sources were licensed, but incorrectly so, as the recent establishment of a Nigerian Nuclear Regulatory Authority seems to have created temporary confusion regarding which entity had the authority to license nuclear materials in Nigeria.

Halliburton Suffers Severe Business Impact

4. (C) The BD Manager stated Halliburton suffered a severe business impact from the ban, but overall oil production did not suffer as Halliburton's competitors swiftly picked up its business. He was frustrated that the GON, perhaps to gain additional negotiating leverage, tried to link

resolution of the ban on new contracts for Halliburton Energy Services Company with the TKSJ (an international consortium involving Halliburton division Kellogg, Brown, and Root, or KBR) bribery scandal on the construction of the NLNG plant. Mills noted that Halliburton Energy Services Company is a separate legal entity from KBR, the Halliburton entity charged in the bribery scandal. He believes that all Halliburton divisions have been unfairly smeared in the scandal.

#### Serious Concerns with JV funding

15. (SBU) Echoing common industry concerns, the BD Manager expressed frustration with the joint venture (JV) funding situation in Nigeria. JV funding constraints are the largest impediment to additional oil and gas exploration and production in Nigeria. The BD Manager is concerned about the downward trend in JV funding by the GON, noting that there are fewer rigs running in Nigeria than two years ago due to JV funding constraints. (Note: The parastatal Nigerian National Petroleum Corporation, NNPC, is typically the dominant equity partner in joint ventures with international firms. Oil production in Nigeria is currently under the joint venture model, although deepwater fields currently under construction are under a production sharing contract model. As the dominant equity partner, NNPC is required to contribute the majority of the equity capital. NNPC does not retain its own revenues from year to year, and hence funds all equity shares with allocations from the GON budget. Increased petroleum revenues from this year's high oil prices do hold out hope of at least temporarily ameliorating the JV funding issue during the next year.) The BD Manager noted a yearly pattern, in which NNPC does not receive the full amount of funds allocated to it. In September or October of a given year, the GON announces the budget data, including an allocation for NNPC. By about April of the following year, the GON does not have sufficient funds, and NNPC is forced to curtail the budget. In turn, U.S. contractors are ordered to curtail their operations. Rig operations are halted, and expensive equipment often has to be re-located to projects outside of the country, causing significant losses for affected firms, including American oil service companies (OSCs). The BD Manager noted that, unlike some other parastatals, NNPC is not willing to be "carried" through alternate financing arrangements when it does not have cash on hand to complete planned projects; rather, the NNPC simply stops operations.

#### Sole Legal Barite Importer Charges 3 Times World Price

16. (SBU) The BD Manager also expressed his concerns with the Nigerian import bans in general, and the ban on barite importation in particular. Barite is used as a weighting agent in drilling mud for oil and gas exploration. It has been banned by the GON, allegedly in the interest of fostering a local barite industry. However, Nigeria does not have the infrastructure to mine it in industrial quantities, and the small-scale hand mining that does exist is inadequate to meet the needs of petroleum operators in Nigeria. The BD Manager noted that Nigeria does not have large quantities of barite, and would run out of the mineral in a little more than three years, if it were produced in-country in industrial quantities. (Note: It appears to be an open question whether the relatively small quantity of barite found in Nigeria would economically justify capital intensive mining investment for barite exploitation.) The BD Manager stated that barite can be purchased on the world market for approximately \$120/ton, but the Ministry of Solid Minerals is now pressuring firms to purchase it from a Nigerian company awarded an exclusive import license for \$350/ton. The import ban has not resulted in any industrial quantity barite production.

17. (C) According to the BD Manager, Halliburton and other OSCs are in danger of failing to meet their contractual obligations with multinational energy firms to carry out drilling operations, due to the lack of barite in the market.

#### Comment

18. (C) Concerns about barite importation are not limited to Halliburton, and have been voiced by a variety of companies at industry conferences. Inflated pricing for barite and other inputs for the petroleum sector also exacerbates the problems caused by GON inadequate JV funding, as operators and their contractors are forced to divert scarce project funds to pay higher than market values for essential inputs. The ban on barite may violate WTO policies, and may be causing significant financial losses for American firms. The ban on barite, like the other import bans, raises serious concerns about the GON's commitment to liberalizing its trade regime, and creating an enabling environment to support credible local industry as well as attract needed foreign investment. The award of sole rights to import barite to one firm also raises issues of rent seeking through manipulation

of Nigeria's trade regulations.

19. This cable has been cleared by Embassy Abuja.  
BROWNE